

# AUDITOR'S REPORT

## Report of the auditor-general to Limpopo provincial legislature and the council on Makhuduthamaga Local Municipality

### Report on the audit of the financial statements

#### Qualified opinion

1. I have audited the financial statements of the Makhuduthamaga Local Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, and cash flow statement and insert title of the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report financial statements present fairly, in all material respects, the financial position of the Makhuduthamaga Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act 56 of 2003) and the Division of Revenue Act of South Africa, 2017 (Act No.3 of 2017).

#### Basis for qualified opinion

##### Irregular expenditure

3. The municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R81 271 625 (2016-2017: R10 888 057). In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the notes to the financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the closing balance of irregular expenditure stated at R74 901 408 (2016-2017: R74 901 408) as per note 46, in the financial statements.

#### Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
5. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matters**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unauthorised expenditure**

8. As disclosed in note 44 to the financial statements, unauthorised expenditure amounting to R48 020 749 was incurred due to overspending of the budget.

### **Restatement of corresponding figures**

9. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of an error discovered in the financial statements of the municipality at, and for the year ended 30 June 2018

### **Other matters**

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

### **Responsibilities of the party for the financial statements**

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
KPA 2: Basic service delivery and infrastructure	x – x
KPA 3: Local economic development (LED)	x – x

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and

related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

#### Development priority 2 – Basic service delivery and infrastructure

**Performance indicators were not well defined and targets not specific, measurable and verifiable**

#### Various indicators

22. The source information and method of calculation for the achievement of the planned indicators below were not clearly defined and targets as determined during planning for these indicators were not specific in clearly identifying the nature and required level of performance and were not measurable and verifiable for delivery as required by the Framework for Managing Programme Performance Information(FMPPI)

Indicator	2017-18 target
Percentage road construction completed	45%
Percentage road construction completed	45%
Percentage road construction completed	100%
Percentage road construction completed	100%
Percentage road design completed	0%
Percentage road construction completed	100%
Percentage road construction completed	10%
Percentage building construction completed	0%
Percentage road construction completed	100%
Percentage road construction completed	100%
Percentage bridge construction completed	100%
Percentage road construction completed	10%
Percentage road construction completed	10%
Percentage road designs completed	0%
Percentage road designs completed	0%
Percentage road designs completed	0%

Percentage road designs completed	0%
Percentage road designs completed	0%
Percentage of electrification construction completed	60%
Percentage of electrification construction completed	60%
Percentage of electrification construction completed	70%
Percentage of repairs and maintenance completed	100%
Percentage of repairs and maintenance completed	100%
Percentage of repairs and maintenance completed	100%
Percentage of MIG overheads budget used	100%
Percentage of waste disposed	100%
Percentage of disaster incidence attended to	100%
Road awareness compains held	04
Sports tournaments played	02

## Comparisons between performance of the year under review and previous year -

### All Indicators

23. Comparison between performance of the year under review and previous year was not included in the annual performance report.

**Reported achievement did not agree with the evidence provided, i.e. not valid and accurate**

### Indicator: Disaster awareness compaigns

24. The achievement for target disaster awareness compaigns held reported in the annual performance report was 8 . However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 6.

### Indicator: Number of cemetery fenced

25. The achievement for target number of cemetery fenced reported in the annual performance report was 6 . However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 5.

#### Indicator: Road safety compaigns held

26. The achievement for target road safety compaigns held reported in the annual performance report was 4 . However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 2.

**Performance indicators did not relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives**

#### Indicators: Number of sports tournament played and percentage of MIG overheads budget used

27. There was no clear and logical link between the indicators- number of tournament palyed and percentage of MIG overheads budget used and the strategic objective to which it relates. The indicators focused on the sports tournament played and MIG overhead butget used, while the strategic objective aimed to achieve provision of infrastructure for improved quality of life.

#### Development priority 3 – Local Economic Development (LED)

**Performance indicators were not well defined and targets not specific, measurable and verifiable**

#### Indicator: Number of ward based LED profiles completed

28. The source information and method of calculation for the achievement of the planned indicators below were not clearly defined and targets as determined during planning for these indicators were not specific in clearly identifying the nature and required level of performance and were not measurable and verifiable for delivery as required by the Framework for Managing Programme Performance Information(FMPPI)

Indicator	2017/18 target
Number of ward based LED completed	31

#### Other matters

29. I draw attention to the matters below.

#### Achievement of planned targets

30. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x to x of this report.

#### Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: basic service delivery and KPA 3: infrastructure and local economic development development

priority. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
33. The material findings on compliance with specific matters in key legislations are as follows:

#### **Financial statements, performance and annual reports**

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

#### **Strategic planning and performance management**

35. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

#### **Procurement and contract management**

36. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the preferential procurement regulations. This non-compliance was identified in the procurement processes for the construction of Manganeng access bridge .
37. Some of the contracts were awarded to bidders based on functionality criteria that differed from those stipulated in the original invitation for bidding, in contravention of preferential procurement regulations, this non-compliance was identified in the procurement processes for the maintenance of the landfill site.
38. Some of the contracts were awarded to bidders based on pre-qualification criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2). This non-compliance was identified in the procurement processes for the construction of Makgaba to Mphane access road
39. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation. This non-compliance was identified in the procurement processes for the supply of tracksuits and golf shirts.



40. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA section 112(j) and SCM regulation 44.

#### **Expenditure management**

41. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by irregular appointments of providers and SCM policies and regulations not followed and applied. Irregular expenditure amounting to R81 271 625 was incurred on construction of road infrastructure projects.
42. Reasonable steps were not taken to prevent unauthorised expenditure as required by section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on specific vote.

#### **Asset management**

43. Investments were not made in accordance with the requirements of the investment policy as the municipality made an investment with Venda Bank Society (VBS) Mutual Bank, which is not registered in terms of the Banks Act, as required by municipal investment regulation 3(3).

#### **Consequence management**

44. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
45. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
46. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure as required by section 32(2)(a) of the MFMA.

#### **Human Resource management**

47. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA

#### **Other information**

48. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
49. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.



50. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
51. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary

### **Internal control deficiencies**

52. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
53. The accounting officer did not implement adequate internal controls to ensure the accuracy, completeness and reliability of the reported financial statements
54. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall financial and performance management system process of reporting.
55. Management did not implement adequate review and monitoring process to ensure that accounting records are properly maintained and annual financial statements agree to the accounting records.
56. The municipality did not adequately design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
57. The financial statements were not reconciled to the underlying records to ensure the accuracy, completeness and reliability of reported financial results.
58. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored by management.
59. The annual performance report was not supported and evidenced by reliable information. This was mainly due to lack of standard operating procedures for the collection, collation and verification of performance information.
60. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments are conducted and that a risk strategy to address the risks are developed and monitored.

61. The internal control monitoring mechanisms of the internal audit are not functioning optimally, as many control weaknesses are only uncovered during the audit of the financial statements and performance information.

*Auditor-General*

Polokwane

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.